Statement of the Honorable Andrew Saul, Chairman
Federal Retirement Thrift Investment Board
Before the House Committee on Government Reform
July 24, 2003

Good morning Mr. Chairman and Members of the Committee. My name is Andrew Saul, and I serve as Chairman of the Federal Retirement Thrift Investment Board. I am accompanied today by Gary Amelio, the Board's Executive Director. My fellow Board members and I, serve in a part-time capacity. Four Board members are relatively new to our positions. Three of us participated in our first Board member meeting last December, and our newest member is joining us for his first meeting today. The five Board members and the Executive Director are fiduciaries and, as such, are required to act solely in the interest of plan participants and beneficiaries.

In January the Board established an open and orderly process through a 5-month nationwide search that resulted in the selection of Gary Amelio, a private sector pension and investment expert, who began his service as the Executive Director just a few weeks ago. We have provided information on Gary's extensive experience in these areas to the Committee. The Board is quite confident that Gary will bring his 22 years of private sector experience to result in the betterment of the Thrift Savings Plan for the participants.

In your letter of invitation, you asked that I address issues in three distinct areas: the new TSP record keeping system, the settlement of the lawsuits between the Agency and American Management Systems, Inc., and potential legislative improvements in the TSP. I welcome the opportunity to discuss each matter.

TSP Record Keeping System

When the new Board members first convened last December, we learned that a proposed daily valued record keeping system had been plagued by a series of delays and a contract termination. A new contractor, MATCOM, was already in place at that time, having replaced the prior contractor, AMS. After receiving detailed briefings, I and the other Board members felt it was appropriate to keep moving forward, with a goal to deliver to Plan participants the improvements first promised in 1997. The improvements to which I refer are; daily, rather than monthly, valuation of accounts, and Web based transactional ability. This upgrade in services for the Plan participants would bring the TSP to a comparable status with plans in the private sector. The Board received status reports at each of our monthly Board meetings and the new system was put into production just over one month ago on June 16, 2003.

Since that time we have successfully processed large numbers of transactions each day and recorded them in the new system. However performance in certain areas has been unsatisfactory and requires improvement. I would like to discuss both.

Between June 16 and July 15, we processed nearly 5 million new contribution transactions totaling $1.2 billion and more than 1 million loan payments to service the almost 800,000 outstanding TSP loans. New contributions and loan repayments have been credited to individual accounts each night. In addition, the daily share prices for each of the five investment funds have been calculated by the Agency and applied to these accounts. These functions, which are absolutely essential daily activities, have been and are working just fine.

We also issued more than 12,000 new loans and 32,000 withdrawal payments through the new system. On June 16 we processed 59,000 interfund transfers on hand at that time and nearly 50,000 more in the month that followed.

One area where we did not anticipate poor performance but which initially reduced the opportunity for participants to enjoy the advantages of the new system is Web access.

Almost immediately after we announced the new system implementation, Web access became degraded and terribly slow. Only 3-5 thousand Web transactions could be handled each hour, which was less than one-tenth of the volume achieved in stress testing. It took more time than we would have liked to identify and solve this problem. I am pleased to report that we have recently solved this problem. Up to 50,000 Web transactions are now being processed per hour, a volume that is greater than the highest level ever achieved under the previous system. Access is still very slow due to high volume between the peak activity hours of 8 a.m. and 4 p.m. The Web is much quicker at other times. Additional performance improvements are on the way that will increase Web volume and further improve online response time.

One significant problem has greatly impacted a small percentage of Plan participants. This problem is largely operational in nature, and is being resolved through manual data entry. The primary group of impacted participants are those who have attempted to pay off existing TSP loans in order to apply for new loans. In many cases, these individuals already have the maximum two loans allowed under the Plan, and their loan repayments were not processed quickly enough to allow for the disbursement of a new second loan as quickly as they wished. When a participant pays off an existing loan, his or her and check must be processed and the loan closed before the new loan application processing can begin. As of late last week a backlog of about 7,000 loan repayment checks remained to be manually processed. 2,000 checks transferring funds from other plans to the TSP known as rollovers also required manual processing. I call to your attention the fact that this is 9,000 participants' transactions from a universe of 3 million participants

Additional record keeper staff were assigned to data enter these loan repayments. We have also hired contractor support at two separate sites to supplement this increased effort. We have used this same approach to process the paper loan and withdrawal applications which participants had submitted to overcome the initial Web access problems. The backlog in this area was approximately 70,000 forms as of late last week. The manual input process has been hampered by slowness on the Web. This is due to heavy volume, caused in part by concerned participants whose loan checks have been delayed. We expect this backlog to be eliminated in 3–4 weeks.

Although the new system has successfully processed a very large volume of transactions, these past few weeks were difficult for several thousand participants, primarily those seeking to refinance loans. I note that under the previous system, processing problems frequently meant that payments would be deferred until the following monthly cycle. A check would then be mailed to participants. The new system allows us to issue payments on any business day (rather than once each month) and do so via electronic fund transfer. We intend to use the new system flexibilities to the best advantage as we resolve the outstanding loan requests.

Settlement of Lawsuits

The second major unresolved issue facing the new Board members when we first met in December was the matter of ongoing lawsuits. They involved the termination of the first contract to build the new TSP record keeping system. The Board, and our new Executive Director reviewed the cases at length with the Agency's General Counsel and solicited advice from the private attorneys who represented and assisted the Agency in preparation of its claims. Additionally, we solicited advice from attorneys in the Department of Justice and the opinions of the senior Agency staff.

Based on all of that information, the Board supported the Executive Director's decision last month to accept a settlement offer that netted $5 million for participants. We are convinced that this was the correct decision, for a number of reasons. First, continued litigation left the Thrift Savings Fund open to a contract claim by AMS against the Agency that could have cost participants as much as $58 million (that is, the amount AMS claimed it was still due under the contract). Second, continued litigation would consume additional time, money, and resources. The Agency already had spent approximately $2.7 million in attorney and expert fees and continuing the litigation would have cost much more. The Agency had been pursuing the case since July 2001 without reaching the merits and we believe it would have taken another year before it could be determined whether the Agency could proceed independently of the Department of Justice. Further, Agency personnel had devoted many hours of work to pursue the litigation and the demands on these personnel would become more intense as the litigation proceeded. Settling would allow all Agency personnel to focus on their principal duty of providing retirement benefits for the participants. For these and other reasons, we concluded that accepting a settlement that put $5 million back into the accounts of TSP participants was the right thing to do.

After the case was settled, $36 million was charged to participants' accounts. This reflects the $41 million in administrative expenses incurred and paid out of the Fund during the period 1998-2001 that had not been charged to participants, pending resolution of the lawsuit, minus the $5 million received as part of the settlement. Charging the accounts is consistent with pending recommendations from both the General Accounting Office and the Department of Labor auditors. The charge allocated to each participant was approximately 3 basis points, which means that earnings were reduced approximately 30 cents for every $1,000 of account balance.

The Board is not abandoning the view that it is and must remain independent in pursuing the interest of participants. In 2001, the Board formally transmitted to Congress a legislative proposal regarding independent litigating authority for the Board. The measure was not introduced. Also, the Department of Justice opposes this position. At one recent meeting, a Board Member noted that working with the Congress on this matter would cost participants nothing, while pursuing it in court has cost the Fund millions. We would like to work with this Committee to see if we could find a way to satisfy concerns in the Congress and the Administration while, at the same time, removing any question by participants that their legal interests will be protected by the Plan's statutory fiduciaries.

Potential Legislative Improvements

In your invitation, you also asked for the Board's view on two potential legislative matters regarding TSP contributions. The first would abolish the statutory requirement for semi-annual contribution election periods. These are commonly known as open seasons. We wholeheartedly endorse this proposal. The Board supports eliminating open seasons because it expands participant access and simplifies Plan administration. We also believe it will increase Plan participation and contribution levels. Open seasons were useful when the Plan was conceived. They now serve to restrict the opportunity for employees to make contribution elections, and more damaging, delay eligibility for Agency Automatic (1%) and Matching Contributions for newly hired employees. The Board has previously supported legislative proposals that would have overcome the latter by providing these benefits as soon as new employees join the TSP. We would do so again and welcome the opportunity to work with the Committee on this matter.

Your second proposal would require that employing agencies assume responsibility to maximize TSP contributions by their employees. We have some administrative concerns with this proposal, and believe employing agencies would as well. However, your proposal to eliminate open seasons would address this concern, as well, by allowing participants to increase their contribution amount at any time.

In closing, I would like to say that the last six months have been a time of tremendous change at the Agency. Due to events that occurred just days before the Senate confirmed the new Board members, we immediately had to deal with the issue of Agency leadership upon our arrival. We also resolved to the benefit of Plan participants and beneficiaries the longstanding lawsuits that left the Fund with significant potential liability while diverting Agency attention and resources. We initiated a new era of openness with our statutory auditor, the Department of Labor, and sought and obtained the assistance of the Department of Justice without in any way diminishing the high fiduciary obligation we have to participants. Since arriving Gary has already contacted the employee organizations that comprise the statutory Employee Thrift Advisory Council in order to communicate ongoing activities and set up an initial meeting as the law provides. He has also initiated due diligence reviews with the Funds' 2 largest vendors, Barclays and the National Finance Center. We are now delivering the promised benefits of the new daily record keeping system to the 3 million participants who want their contributions and loan payments processed and account balances updated each day. Going forward, we are processing transactions via the web and are working through the operational issues that are affecting loans as I described in my statement. We expect to have these issues substantially resolved in a matter of weeks and are confident that the new system will provide many years of solid service to all participants.

That concludes my prepared remarks. I would like to introduce the new TSP Executive Director, Gary Amelio, to the Committee and request that he provide the Committee with a brief update regarding the status of transaction processing.